

Message Text

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ACTION AF-10

INFO OCT-01 ISO-00 PA-01 L-03 H-01 AID-05 CIAE-00
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E.O. 11652: N/A
TAGS, EINV, NI
SUBJ: INDIGENIZATION PROBLEMS FACING U.S. FIRMS

1. AS THE DECEMBER 31, 1978 DEADLINE FOR COMPLIANCE
WITH NIGERIA'S INDIGENIZATION DECREEE DRAWS CLOSER,
COMMON PROBLEMS FACED BY AMERICAN COMPANIES ARE COMING
INTO SHARP DEFINITION. MOST OF THE FIRMS SHARE THE
FOLLOWING THREE CONCERNS:

A. SHARES ARE UNDERVALUED. THE CAPITAL ISSUES COM-
MISSION IS VIEWED AS SETTING TOO LOW A PRICE FOR SALE OF
SHARES. THIS IS ESPECIALLY TRUE FOR COMPANIES WHICH
HAVE BEEN HERE FIVE OR MORE YEARS. ASSETS, REAL AND
POTENTIAL, ARE ALLEGEDLY NOT RECEIVING THEIR FULL VALUE.
PFIZER, FOR EXAMPLE, ESTIMATES THAT FOR ONE OF ITS
LOCAL COMPANIES IT WILL LOSE AT LEAST ONE MILLION
DOLLARS ON EQUITY SHARES SOLD TO NIGERIANS.

B. SHARES MUST BE SOLD PUBLICLY. THE FMG'S INTENTION
IN NOT ALLOWING COMPANIES TO SELL BLOCKS OF STOCK
PRIVATELY WAS TO PREVENT THE USUAL CLIQUE OF FAT CATS
FROM GOBBLING UP MORE COMPANY OWNERSHIP. HOWEVER, THE
COST OF QUOTE GOING PUBLIC UNQUOTE IS HIGH. THE
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AVERAGE OUTLAY APPROXIMATES NAIRA 150,000 (FOR AD-
VERTISING, PRINTING OF PROSPECTIVES, LAWYER AND
ACCOUNTANT FEES). OVERHEAD COSTS ARE FIXED WHETHER
THE COMPANY SELLS NAIRA 200,000 OR NAIRA 3 MILLION I
SHARES. IN CONTRAST, PRIVATE PLACEMENT WOULD COST
ABOUT NAIRA 30,000. THIS EXPENSE ESPECIALLY CAUSES SMALLER FIRMS
TO SUFFER. SOME U.S. FIRMS SUCH AS FOREMOST DAIRIES BELIEVE

THAT PRIVATE PLACEMENT WOULD ALSO PERMIT THE COMPANY TO SELECT A NUCLEUS OF GENUINELY INTERESTED NEW SHAREHOLDERS WHO WOULD PUT THEIR INFLUENCE AND ENERGY TO WORK. IN CONTRAS, HUNDREDS JOR THOUSANDS OF SMALL SHAREHOLDERS LACK INFLUENCE AND INTEREST.

3. TECHNICAL/MANAGEMENT AGREEMENT MAY BE TOO RESTRICTIVE. GOING TO A MINORITY EQUITY POSITION, A COMPANY THEORETICALLY LOSES CONTROL OF THE FIRM'S OPERATIONS. THIS NECESSITATES MORE STRICT AGREEMENTS IN ORDER TO MAINTAIN QUALITY AND PROTECT THE FOREIGN OWNER'S INTEREST. AGREEMENTS CAN DEMAND DECISION-MAKING AUTHORITY, MONEY PAYMENTS AS PERCENTAGE OF PROFIT, FIXED FEES FOR CERTAIN SERVICES, AND ASSURED DIRECT REMITTANCES FOR MANAGEMENT PERSONNEL. UP TO NOW THERE HAS BEEN NO CLEAR FMG POLICY RE TERMS OF THE PROPOSED AGREEMENTS, BUT SOME INDICATORS POINT TO A RATHER STRICT LINE.

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